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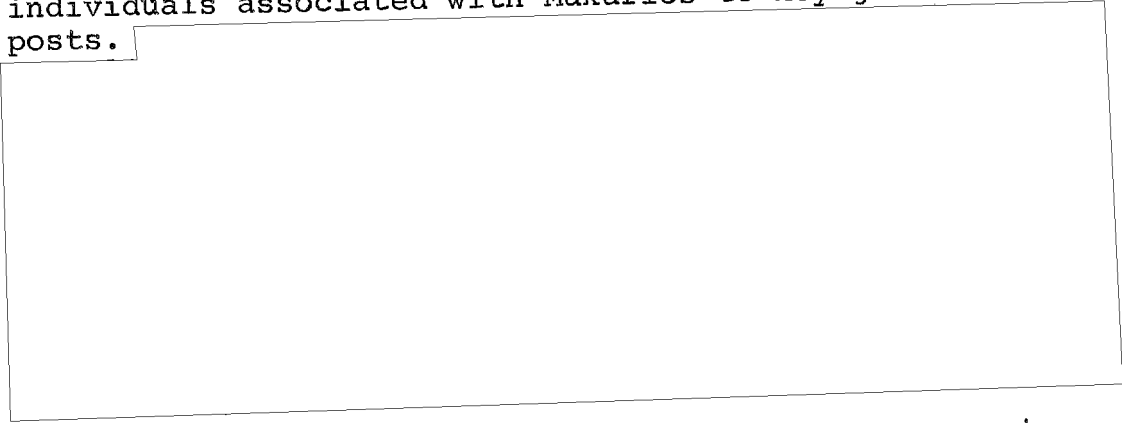
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GREECE-TURKEY-CYPRUS

The attempted assassination yesterday of leftist leader Vassos Lyssaridis will further complicate acting President Clerides' efforts to control Cypriot extremists and to build a political base.

Lyssaridis, a confidant of Archbishop Makarios, was wounded in the attack. He says the right-wing EOKA-B organization was responsible. Lyssaridis has appealed to his followers, many of whom are armed, not to seek revenge, but the attempt on his life could spark further violence between extremist groups on Cyprus.

The attack may have been a warning to Clerides, who has removed many officials associated with the right-wing Sampson regime and appointed personal friends and individuals associated with Makarios to key government posts.



In Greece, Karamanlis is scheduled to make a major speech today. The government on Thursday published a decree calling for administrative preparations for an election. Two weeks ago the Prime Minister suggested that an election would be held in two to six months, and many observers in Greece expect him to announce a date.

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Foreign Minister Mavros will begin a tour of European capitals next week. He reportedly will visit Paris, Brussels, and Bonn before going to New York for the meeting of the UN General Assembly. Besides seeking support for the Greek position on Cyprus, Mavros is likely to discuss at each stop in Europe bilateral relations, Greek-EC relations, and Athens' threatened military withdrawal from NATO.

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USSR

The Communist Party chief of Leningrad has made a strong pitch to the departing US consul general for an early meeting between President Ford and General Secretary Brezhnev. The Soviet official, Grigory Romanov, is a candidate member of the Politburo and a young comer who appears to have developed good political ties with Brezhnev.

Romanov told the consul that the personal contact between former President Nixon and Brezhnev was essential to the ending of the "cold war atmosphere." He said it was vital that President Ford establish a similar personal relationship with Brezhnev, implying that it was particularly important to future progress in negotiations on arms limitations. Romanov expressed some concern that President Ford would concentrate on domestic problems. This concern has been a recurring theme in Soviet media commentaries on the new US administration.

Romanov said that the Soviets still attach considerable importance to a trade bill, and that they are growing impatient with the delays. He argued that the requirements of long-range economic planning may force Moscow to make some decisions about the development of Siberia without US participation.

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USSR-CYPRUS

The Soviets are keeping alive their proposal for a UN-sponsored international conference on Cyprus, but they have not mounted a major diplomatic effort behind it for fear of damaging their longer term interest in Turkey.

The biggest plusses for the Kremlin so far have been the qualified endorsements by Athens and the Greek Cypriots of the initiative. Moscow responded by treating Greece more positively in its media. The Soviets will certainly continue to suggest that they are sympathetic to Greece's frustrations over its inability to dislodge the Turks. They may also encourage Athens to believe that Moscow will do more for it if Greece breaks completely with NATO and ends US base rights. Nevertheless, the Soviets probably recognize that the Greek government is using the Soviet proposal to gain leverage with Washington and Ankara and to convince domestic opinion that the government is not unable to resolve the situation.

The Turkish rejection has been a major factor in Moscow's cautious handling of the proposal, because the Soviets have a considerable interest in maintaining good relations with Ankara. They have, therefore, soft-pedaled the Turks' rejection of the conference.

International reaction to the proposal has been cool. The French, for example, have characterized the initiative as a propaganda ploy and hope to avoid a formal reply. The nonaligned states--some of which would have been invited to participate in the conference--have reacted indifferently.

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The Soviets will probably continue to publicize their proposal in order to try to inject themselves into the Cyprus crisis, improve relations with Athens, disrupt NATO, and polish their credentials as supporters of an independent Cyprus. On Thursday, for example, Soviet UN representative Malik used his power as this month's chairman of the UN Security Council to delay consideration of a Western resolution on Cypriot refugees because it did not mention the Soviet proposal.

The Soviets may also seek other ways of staying diplomatically involved. The Soviet press, for example, has noted Greece's unofficial suggestion that the Cyprus issue be taken to the UN General Assembly. Moscow urged some nonaligned states to make this move several weeks ago and may again seek to stir up interest in the idea.

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NATO-GREECE

The letter Greek Prime Minister Karamanlis has sent to President Ford and the other NATO heads of government may force the allies to look at the consequences of Greece's announced withdrawal from NATO's integrated military command.

Karamanlis wrote that NATO's failure to halt Turkish military actions on Cyprus led his government to its decision to place Greek forces under national command. As part of this decision, Greece will recover "full exercise of sovereignty" over its territory, airspace, and territorial waters. Greece's sovereignty, Karamanlis continued, has been limited because of participation in NATO, the regular use of Greek airspace and territorial waters by foreign craft, and "the permanent presence on Greek soil of foreign military installations and facilities." While some press reports are interpreting this as meaning that all NATO and US bases in Greece will have to go, the Karamanlis government has probably not made that decision. On the contrary, the letter goes on to say that Greece is ready to examine with its allies the "practical measures" called for by the decision to withdraw militarily from NATO.

Before the Karamanlis letter was received, NATO's "Cyprus group"--five Alliance members who have been monitoring developments since the beginning of the Cyprus crisis without the presence of the Greeks and Turks--yesterday heard a report from the West German embassy in Athens outlining in considerable detail Greece's intentions. The political director of the Greek Foreign Office reportedly said that:

--Greece's return to NATO's integrated military structure is out of the question.

--The US military mission in Greece will not be disturbed, but arrangements for homeporting some units of the US Sixth Fleet will have to be terminated.

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--The NATO missile training facility on Crete will not be affected.

--Greece's continued participation in the NADGE early warning system is unclear.

--Greece hopes to foster stronger bilateral military relations with its allies.

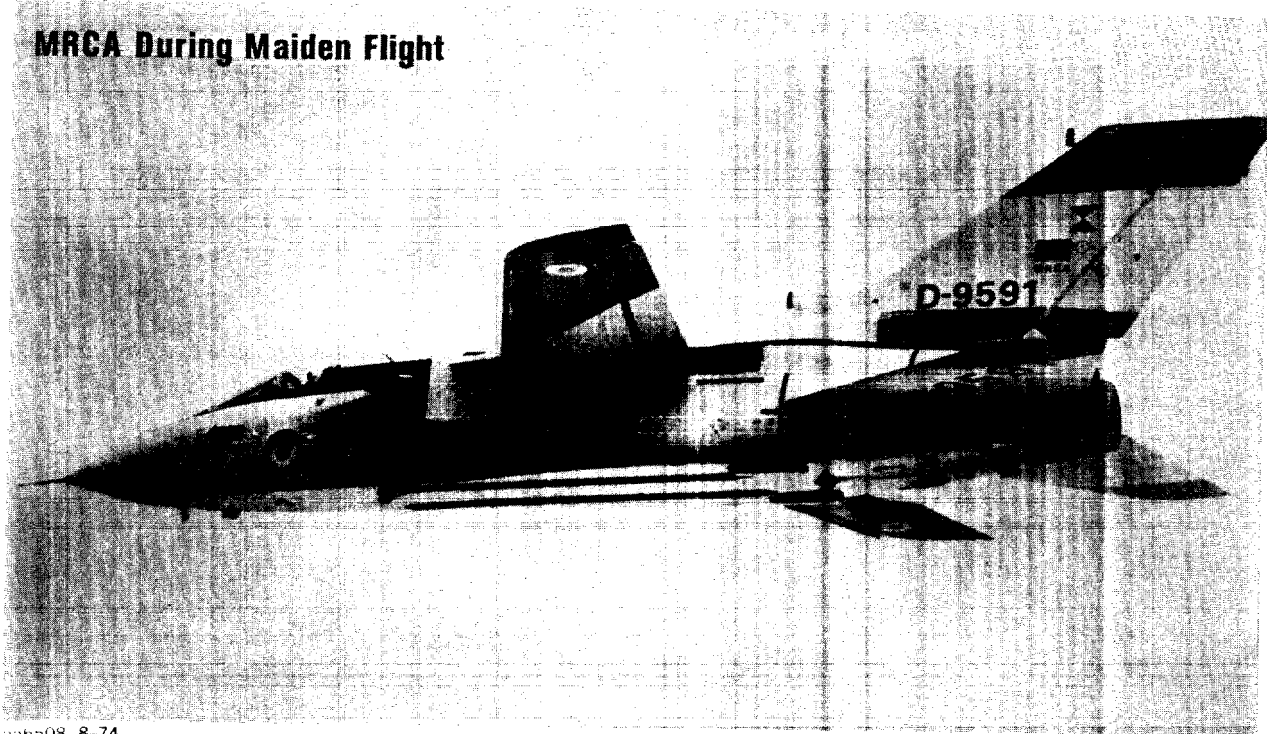
The German representative at the NATO meeting added that, since the Greeks are now beginning to assess the costs and benefits of military withdrawal from NATO, Bonn hoped no ally would "reward" Athens bilaterally. The French representative--showing Paris' sensitivity to recent press claims that France is speeding up military shipments to Greece and might be preparing to offer other bilateral aid--replied that his country was trying to give only factual answers when asked by the Greeks about how to withdraw militarily from NATO. A French diplomat in Washington has also denied that France is trying to encourage the Greek withdrawal. He insisted that Paris does not want to become Athens' "technical counselor" on how to get out of NATO.

The Greeks have so far taken virtually no steps to implement their military withdrawal from NATO, which was announced on August 14. NATO itself has been following a policy of "organized inertia"--putting off meetings of its military committees and subcommittees--so as not to force the Greeks into deciding not to participate. That policy has been possible during the August vacation period, but it will be more difficult to follow as the Brussels machinery gears up for the fall.

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MRCA During Maiden Flight



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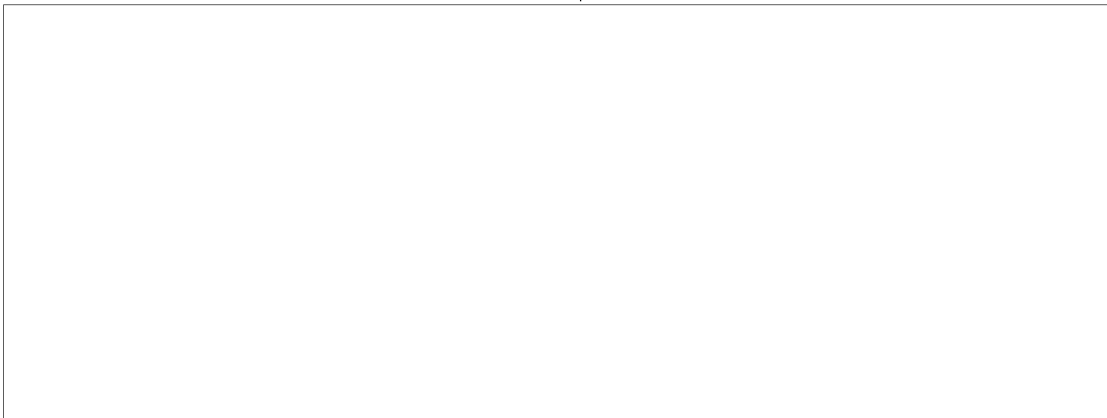
UK - ITALY - WEST GERMANY

The European Multirole Combat Aircraft (MRCA) reportedly flew for the second time on August 26. Officials from Panavia, the international firm that is developing the aircraft, said the 50-minute flight was trouble-free.

The complex swing-wing mechanism was tested successfully. Several maneuvers and the landing reportedly were made using only one engine, suggesting that the engine problems responsible for previous delays are being resolved.

Funding problems, however, continue to raise questions about the aircraft's future. [redacted]

[redacted] British government funds for the MRCA ran out in June, forcing British firms to rely on their own limited resources. The West German government's contribution will run out in September. A crucial decision by the three governments involved--Italy, the UK, and West Germany--on authorization of funds for the next phase of the program has been pending since May.



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VIETNAM

In the past few weeks, there have been a number of signs that Hanoi may have decided to adopt more aggressive tactics in South Vietnam:

--Since the resignation of former President Nixon, Vietnamese Communist propaganda has taken on a distinctly more militant cast.

--The change in tone comes against a backdrop of increased Communist military activity. Most reporting points toward more fighting on at least the present scale. The Communists have made some gains and could be in a better position to carry out large military operations next year.

--We have also seen a new stress on "urban struggle" in Vietnamese Communist propaganda. This line may be a prelude to a campaign of terrorism in the cities, although Communist capabilities for that seem limited.

These signs suggest that the Communists may now see a more favorable strategic balance developing, based in part on a belief that mounting Congressional opposition to a continuation of administration policies in Vietnam will make it difficult for the US to maintain backing for Saigon. At present, Hanoi appears more interested in probing the position of President Ford's administration than in mounting an all-out military offensive to topple the Thieu government.

Hanoi is possibly preparing to return to the strategy it followed at some points in the 1960s. This strategy combined a high level of military activity in the countryside with widespread shelling and terrorism in urban areas. The Communists' intent was to inflict

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as much damage as possible on the South Vietnamese army, erode public confidence in the Saigon government, and drive the war home to the American public.

Communist objectives this time around presumably would be similar. Not only would they be seeking to soften up the Thieu government and its strong stance against any political compromise with the Communists, but they may also hope that a turning of the screw in the South just now would lead to a new round of talks between Hanoi and Washington.

The Communists remain prepared to achieve their long-term objectives through major military action. A confrontation along the lines of the offensive of 1972 is unlikely, however, at least until early next year, when favorable weather will prevail in most of the country.

Before major action occurs, there are likely to be certain indicators, which have not been seen so far. Specifically:

--The Communists have not infiltrated the large numbers of forces that would be needed to sustain a major military effort.

--North Vietnam's large strategic reserve, which would almost certainly see action if Hanoi were to launch a major offensive, still shows no sign of preparation for movement.

It is clear, however, that the South Vietnamese government will come under increasing pressure over the next few months, even if an all-out offensive does not develop.

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FEDAYEEN

The Palestine Liberation Organization this week began to discuss strategy for raising the Palestinian issue at the UN General Assembly session that opens next month. PLO Chairman Yasir Arafat has requested Arab League support for inscription of the issue as a separate item on the General Assembly agenda. The League will discuss the question at its foreign ministers' meeting scheduled to be held tomorrow in Cairo.

According to the US embassy in Beirut, the PLO has apparently set its sights on gaining full observer status at the UN. It also wants an assembly resolution that would recognize the PLO as the "sole" representative of all Palestinians, going beyond Security Council Resolution 242 of 1967, which refers to the Palestinians only as refugees.

Arafat may have been encouraged during his visit to Moscow early this month to press the Palestinian case in the UN. The Soviets reportedly indicated they would be disposed to support such a move.

Arafat's initiative is part of his wide-ranging effort to seek maximum international support for the Palestinian cause in order to buttress a PLO claim to a seat at the Geneva peace conference. UN recognition of the PLO as the sole representative of the Palestinians would also aid Arafat's attempt to resist radical fedayeen pressures. Earlier this summer Arafat backers launched a much-publicized but primarily rhetorical campaign to gain support for strengthening the Palestinian clauses of Resolution 242. The effort was designed in part to undercut the opposition in the PLO to Palestinian participation in peace negotiations.

Introduction of the Palestinian issue at the UN in the terms apparently envisioned by the PLO would pose an obstacle to successful negotiation of wider Middle

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East issues. Although the Arabs would support a move to give the PLO observer status, international recognition of the organization as the Palestinians' "sole" representative could force Jordan to pull out of the Geneva peace talks and undermine Egypt's efforts to achieve a compromise allowing both the Jordanians and the Palestinians to negotiate. [REDACTED]

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WEST GERMANY

Authorities are moving to shore up the banking system in the wake of four bank failures. The Federal Bank Supervisory Authority announced on Friday that it will limit foreign exchange positions to 30 percent of banks' liabilities. This move is intended to avoid the overextension in foreign money markets that brought about the collapse of the Herstatt bank.

The Bundesbank's Central Bank Council reportedly began discussions Thursday on the establishment of a new bank to aid credit institutions facing liquidity emergencies, such as those that led to the closing of the three other banks. The liquidity bank would replace the so-called "fire-fighting" fund to which a consortium of 15 major banks contribute. The new institution would have resources running to several billion marks, suggesting that the Bundesbank would have a substantial--but so far undefined--role in its formation. Private bankers and government officials are receptive to a more formal system to guarantee liquidity as one way to dispel the uncertainty currently surrounding German banking. [REDACTED]

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ETHIOPIA

Open criticism of Emperor Haile Selassie, unheard of in Ethiopia until very recently, is increasing as is talk that his departure from the political scene is necessary for the country's revolution to succeed. Talk against the Emperor clearly has the approval of the military reformers' Armed Forces Coordinating Committee, which may be preparing the ground for his eventual ouster.

Haile Selassie's past leadership is being condemned and he is being personally blamed for many of the country's current problems in a continuing stream of press articles and pamphlets, which radical members of the committee may have had a hand in producing. In a report issued this week by a special inquiry commission, the Emperor was for the first time directly linked to government inaction in dealing with the disastrous drought that caused thousands of deaths in recent years in northern Ethiopia.

The Coordinating Committee apparently has not made a final decision to remove Haile Selassie from the throne, although sentiment within the group seems to be moving that way. Such action is not likely to provoke serious opposition in the major urban areas, but the committee is probably less certain of the reaction among the tradition-bound rural population. There are no indications, however, that peasants are rallying to Haile Selassie's defense and many are said to believe he has lost his "divine mandate."

The growing public criticism could prompt Haile Selassie to abdicate, rather than suffer further indignities. Now 82 years old and tired, he probably has no delusions about his chances of regaining his shattered authority and prestige.

A majority of the military, including most Coordinating Committee members, reportedly want to preserve the monarchy. Finding a successor to Haile Selassie could

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25X1 prove difficult, however. Crown Prince Asfa Wossen, the
next in line, [redacted] has been out of the
country since early 1973. The military is believed to
25X1 prefer Asfa Wossen's son, the 23-year-old Zara Yacob. It
is not certain, however, that either would be willing to
assume the throne under the current conditions. [redacted]

[redacted]

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BOLIVIA

Bolivian President Hugo Banzer's threat to resign last night apparently was calculated to shore up his support among the military and thwart a possible challenge from civilian politicians.

The President put his resignation before the armed forces after learning that the civilians were forming a united front to run in the elections Banzer has promised to hold in October 1975. Signs of a potential civilian challenge to the government appeared on Thursday when Mario Gutierrez, who had been one of Banzer's chief backers, publicly urged that the elections be moved up to next May or June and declared his own presidential candidacy. Gutierrez, a leader of one of Bolivia's two major political parties, also came out in favor of amnesty for all persons exiled or jailed in previous coup attempts against Banzer.

Bolivia's economic problems have been costing the Banzer government important support among both civilians and military men for some time. The military's refusal last night to accept Banzer's resignation is probably due more to the suddenness of his move than to any genuine ground swell of support.

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